

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Dairy and Products Annual

2010

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Report Highlights:

Argentine milk production for 2011 is projected at 11.07 million metric tons (equivalent to 10.75 billion liters), the highest ever, as a result of good prices and good returns at the farm level. Most surplus milk will be processed into dry whole milk for export, which could reach a high of 200,000 tons (the second highest volume in history). Cheese exports are also expected to increase to 48,000 tons.

Commodities:

Dairy, Milk, Fluid

Production:

Argentine milk production for 2011 is projected to increase to a record 11.07 million metric tons (or 10.75 billion liters). Good returns at the farm level are expected to provide producers incentives to continue intensifying management efficiency and increase milk production further.

High milk prices have brought increased profitability to milk producers. The business has been very erratic in recent years, with times of gains followed by periods of losses. Most producers are expanding their operations. However, there are practically no new producers coming into the business as the investment needed is significant and the future still remains somewhat unclear. Local dairymen are putting a lot of focus on improving nutrition, with better quality feed. The current price conversion relation between corn and milk is very good, allowing producers to supply cows with higher energy and protein feed. Producers plan to produce more silage, renovate pastures, purchase new feed mixers, and use superior quality genetics. Pastures are still important in dairy operations, but the area has been falling.

Current returns on dairy are higher than returns on soybeans, but crop production competes strongly for use of land as it demands less investment and management. The competition for land use, high land prices, and increasing costs of leasing land are strong limiting factors for major dairy expansion. Most contacts agree that if current economic and market conditions remain relatively unchanged, Argentina's dairy production will expand at a very moderate rate. The local sector believes that if a new company wants to establish, it will need to buy an existing company, because it will be very hard for it to collect significant volumes of milk as the competition among existing processors is big. Most of the expected future growth will be exported.

Farmgate milk prices for 2011 are expected to drop somewhat in real terms as local analysts project world dairy prices to fall marginally. Production costs are expected to continue to increase due to high inflation and higher feed prices. Most contacts expect a firm demand in the domestic market. Farmgate milk prices in dollar terms are the highest they have been in the past 10 years, with a current price of about US\$0.33 per liter. Dairy producers' profitability in October 2010 was between 100-150 percent higher than a year back, primarily due to the increase of 58 percent in farmgate milk prices (measured in dollars). Returns are expected to fall somewhat in 2011. The price of dairy cattle has also increased significantly. Good quality commercial heifers currently bring about US\$1500 each.

Domestic consumption is forecast to only expand moderately in 2011, leaving additional milk production available for export. Argentina exports about 20 percent of its total milk production, primarily in the form of dry whole milk and cheese. Local contacts indicate that most additional milk in 2011 will be processed into dry whole milk for export. Production of dry whole milk is forecast at 260,000 tons, similar to the previous record

levels of 2004 and 2006. The country's total drying capacity is estimated at 13-14 million liters a day and there are no new investment projects to increase the processing capacity further. Dry milk processors point out that with growing milk output they could have some logistical and capacity problems during peak production. Cheese production is also expected to increase in 2011 to 550,000 tons. About 40 percent of the country's total milk will go into cheese manufacturing, primarily soft and semisoft cheese. There are several hundred small and medium cheese manufacturers throughout the entire country. Little investment is expected in the local processing industry in 2011. There is still some unused capacity in most fresh products.

Consumption:

Domestic consumption of dairy products in 2011 is forecast to grow marginally. The local economy is expected to continue to expand, especially with government policies which promote consumption. Contacts point out that there could be an additional demand for dairy products for social programs managed by federal and provincial governments in 2011.

Cheese consumption is currently high and it is expected to grow only marginally as contacts indicate that retail prices are very high. Over 90 percent of the production is consumed domestically, and there is little room for further expansion. Cheese producers claim that large retailers work with high margins, limiting potential growth.

Trade:

Exports of dairy products for 2011 are expected to continue to expand as a result of milk output growing faster than domestic demand. Total exports could be the second largest after 2006. Most additional milk will be processed into whole dry milk, the most important dairy product exported by Argentina.

Exports of dry whole milk in 2011 are projected at 200,000 tons. Most local exporters project FOB prices to remain at similar levels to current prices. The three most important markets for Argentina are expected to be Venezuela, Brazil and Algeria, which normally take 60-70 percent of the total. Then follow several countries from central west Africa, and Cuba. Under this category, Argentina also exports modified whole dry milk for children (under HTS 190110), with Venezuela and the Dominican Republic as top markets. Exports of nonfat dry milk are forecast at 18,000 tons in 2011, with Brazil the leading market.

Cheese exports in 2011 are projected at 48,000 tons, the second highest level ever after 2006, as a result of expected larger production. Local cheese exporters also foresee stable international prices for 2011. Mozzarella cheese is expected to be the product most exported to markets such as the Russian Federation, Brazil, Japan, Taiwan and Chile. Then follow exports of semisoft cheese (Gouda, Edam) to markets such as Brazil, Venezuela, Chile and Japan. Exports of hard cheese will primarily go to the U.S. under a cheese tariff rate quota, and some to Brazil, the Russian Federation, Chile and Japan. The average export price of cheese during the first 7 months of 2010 was 37 percent higher compared to the same period in 2009.

Dairy exports in the first 7 months of 2010 totaled US\$ 403 million, of which whole dry milk accounted for US\$210 million, cheese US\$86 million, concentrated whey US\$29 million, and nonfat dry milk US\$19 million.

Brazil was the top market with US\$110 million, followed by Venezuela with US\$63 million, Algeria with US\$29 million, and the U.S. with US\$21 million.

Argentina imported in the first 7 months of 2010 US\$23 million in a variety of dairy products, such as processed cheese from Uruguay and Brazil, casein from Denmark and the Netherlands, dry milk from Brazil and concentrated whey from the Netherlands and the U.S. In 2010 it also imported some butter due to a shortage in domestic production.

Policy:

Contacts report that despite a few government controls with the objective of keeping a well-supplied domestic market at reasonable prices, the local dairy sector is operating under a generally free environment.

There are still retail price controls in a few mass products, but the government has allowed large dairy processors to increase prices, especially for those products not considered essential. Processors no longer receive subsidies to compensate for low prices, nor do dairy producers receive government payments for the milk they produce.

Exporters indicate that export permits are being issued quite rapidly, and that there are no longer maximum export prices. Export taxes were eliminated in early 2009. The dairy sector continues, however, to keep a well-supplied domestic market.

The government continues to tax exports of corn (20 percent export tax) and soybean meal (32 percent export tax), as well as use export licensing requirements to maintain lower domestic corn prices, resulting in reduced feed costs for dairy producers.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Argentina	2009			2010			2011		
UNITS: 1000 MT	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Cows In Milk (1000 HEAD)	2,100		2,100	2,100		2,100			2,100
Cows Milk Production	10,100		10,350	10,300		10,600			11,070
Other Milk Production	0		0	0		0			0
Total Production	10,100		10,350	10,300		10,600			11,070
Other Imports	0		0	0		0			0
Total Imports	0		0	0		0			0
Total Supply	10,100		10,350	10,300		10,600			11,070
Other Exports	20		22	22		22			25
Total Exports	20		22	22		22			25
Fluid Use Dom. Consum.	1,980		2,100	2,000		2,130			2,160
Factory Use Consum.	8,100		8,228	8,278		8,448			8,885
Feed Use Dom. Consum.	0		0	0		0			0
Total Dom. Consumption	10,080		10,328	10,278		10,578			11,045
Total Distribution	10,100		10,350	10,300		10,600			11,070

Dairy, Cheese Argentina	2009			2010			2011		
UNITS: 1000 MT	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	39		39	34		29			28
Production	534		530	543		540			550
Other Imports	3		3	3		4			4
Total Imports	3		3	3		4			4
Total Supply	576		572	580		573			582
Other Exports	42		48	46		45			48
Total Exports	42		48	46		45			48
Human Dom. Consumption	500		495	504		500			505
Other Use, Losses	0		0	0		0			0
Total Dom. Consumption	500		495	504		500			505
Total Use	542		543	550		545			553
Ending Stocks	34		29	30		28			29
Total Distribution	576		572	580		573			582

Dairy, Dry Whole Milk Powder Argentina	2009			2010			2011		
UNITS: 1000 MT	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	20		20	19		20			17
Production	222		210	235		220			260
Other Imports	2		1	2		2			1
Total Imports	2		1	2		2			1
Total Supply	244		231	256		242			278
Other Exports	155		157	165		170			200
Total Exports	155		157	165		170			200
Human Dom. Consumption	70		54	70		55			58
Other Use, Losses	0		0	0		0			0
Total Dom. Consumption	70		54	70		55			58
Total Use	225		211	235		225			258
Ending Stocks	19		20	21		17			20
Total Distribution	244		231	256		242			278

Dairy, Milk, Nonfat Dry Argentina	2009			2010			2011		
UNITS: 1000 MT	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	7		7	7		10			10
Production	25		33	26		38			35
Other Imports	0		0	0		0			0
Total Imports	0		0	0		0			0
Total Supply	32		40	33		48			45
Other Exports	15		13	17		20			18
Total Exports	15		13	17		20			18
Human Dom. Consumption	10		17	10		18			17
Other Use, Losses	0		0	0		0			0
Total Dom. Consumption	10		17	10		18			17
Total Use	25		30	27		38			35
Ending Stocks	7		10	6		10			10
Total Distribution	32		40	33		48			45

